

Message Text

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44

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HUD - MR. MALECH (SUBSTANCE)

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

UNCLAS STATE 266695

E.O. 11652: N/A

TAGS: EIND, CA

SUBJECT: GOC INTEREST IN HUD'S SUSPENSION ACTION AGAINST
CANADIAN FIRM

REF: OTTAWA 4113

1. IN NOVEMBER 7 CONVERSATION WITH LAWYER IN HUD'S GENERAL
COUNSEL'S OFFICE WHO IS REPRESENTING GOVERNMENT IN CONTRACT
DISPUTE AGAINST DESCON INTERNATIONAL SYSTEMS, WE OBTAINED
FOLLOWING BACKGROUND INFORMATION ON THIS CASE.

2. IN 1973 DESCON WAS DECLARED TO BE IN DEFAULT OF
CONTRACTS IT HELD WITH HUD FOR HOUSING CONSTRUCTION AT
SITES IN JERSEY CITY AND ST. LOUIS. IN A SUBSEQUENT
RELATED BUT SEPARATE ACTION, AS INDICATED REFTEL, DESCON
WAS PLACED UNDER SUSPENSION BY HUD, A TEMPORARY ACTION
WHICH IS TAKEN IN CASES, ALSO AS INDICATED REFTEL, WHERE
THERE IS "SUSPICION OF FRAUD OR OTHER CRIMINAL CONDUCT."

3. ACCORDING TO TRANSCRIPT OF INITIAL HEARING OF THE
SUSPENSION CASE ON FEBRUARY 6, 1974, THE HUD HEARING
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OFFICER ASSERTED THAT DESCON HAD VOLUNTARILY AGREED TO

REMAIN UNDER SUSPENSION-WITHOUT PREJUDICE-PENDING THE
OUTCOME OF THE CONTRACT DEFAULT CASE. (DESCON PRESIDENT

WILLIAM DAWSON AND ATTORNEY ARNOLD SPELLUM CALLED ON HUD
GENERAL COUNSEL ON NOVEMBER 4, 1975 AND IN THE COURSE
OF THAT MEETING CONTESTED FOR THE FIRST TIME THE
ASSERTION MADE BY HUD 21 MONTHS EARLIER THAT THE FIRM
REMAINED UNDER SUSPENSION "VOLUNTARILY.") HUD BOARD OF
CONTRACT APPEALS HEARING ON DEFAULT CASE WAS ORIGINALLY
SCHEDULED FOR SEPTEMBER 1975, BUT WAS DELAYED AT DESCON'S
REQUEST. IT WILL PROBABLY BE RESCHEDULED FOR JANUARY
1976.

4. KEY QUESTION OF NATURE OF "FRAUD OR OTHER CRIMINAL
ACTION" WHICH PROMPTED HUD TO SUSPEND DESCON REMAINS
UNANSWERED (HUD LAWYER ORIGINALLY INVOLVED WITH CASE
HAS SINCE DIED.) HUD GENERAL COUNSEL WILL RESEARCH THIS
QUESTION AND PROVIDE ADDITIONAL INFO ASAP.

5. CANADIAN EMBOFF JIM BOND HAS BEEN IN CONTACT WITH
HUD ON THIS MATTER, AND THUS FOREGOING DETAILS ARE
PRESUMABLY ALREADY IN HANDS OF OTTAWA OFFICIALS. KISSINGER

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